

106TH CONGRESS
2D SESSION

H. R. 4616

To amend the Internal Revenue Code of 1986 to provide for the establishment of, and the deduction of contributions to, homeownership plans.

IN THE HOUSE OF REPRESENTATIVES

JUNE 8, 2000

Mr. WEXLER introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To amend the Internal Revenue Code of 1986 to provide for the establishment of, and the deduction of contributions to, homeownership plans.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Restore the American
5 Dream Act of 2000”.

6 **SEC. 2. HOMEOWNERSHIP PLANS.**

7 (a) IN GENERAL.—Part VII of subchapter B of chap-
8 ter I of the Internal Revenue Code of 1986 (relating to
9 additional itemized deductions for individuals) is amended

1 by redesignating section 222 as section 223 and by insert-
2 ing after section 221 the following new section:

3 **“SEC. 222. HOMEOWNERSHIP PLANS.**

4 “(a) ALLOWANCE OF DEDUCTION.—In the case of an
5 individual, there shall be allowed as a deduction the
6 amounts paid in cash for the taxable year by or on behalf
7 of such individual to a homeownership plan established for
8 the benefit of the individual.

9 “(b) LIMITATIONS.—

10 “(1) MAXIMUM DEDUCTION.—The deduction al-
11 lowed by subsection (a) for the taxable year shall not
12 exceed the lesser of—

13 “(A) \$9,000, or

14 “(B) an amount equal to the compensation
15 includible in the individual’s gross income for
16 such taxable year.

17 “(2) PERIOD FOR DEDUCTIONS.—No deduction
18 shall be allowed under subsection (a) for any con-
19 tribution made to a homeownership plan after the
20 contribution period.

21 “(3) NUMBER OF PLANS.—If an individual is
22 the beneficiary of more than 1 homeownership plan
23 during any taxable year, no deduction shall be al-
24 lowed under subsection (a) for any amount paid for

1 such taxable year to any homeownership plan estab-
2 lished for the benefit of such individual.

3 “(4) MARRIED INDIVIDUALS.—For purposes of
4 this section—

5 “(A) TREATMENT.—Married individuals
6 filing either a joint return or separate returns
7 shall be considered to be 1 individual.

8 “(B) ESTABLISHMENT OF PLAN.—A home-
9 ownership plan established for the benefit of
10 any married individual shall be deemed to be
11 established for the exclusive benefit of the indi-
12 vidual and such individual’s spouse.

13 “(C) MERGER OF PLANS.—In the event
14 that 2 individuals for each of whose benefit a
15 homeownership plan has been established
16 should marry, the 2 plans shall be deemed to be
17 merged into 1 plan. Thereafter, subject to para-
18 graph (1), each individual may make contribu-
19 tions during the remainder of the contribution
20 period applicable to that individual.

21 “(c) DEFINITIONS AND SPECIAL RULES.—For pur-
22 poses of this section—

23 “(1) HOMEOWNERSHIP PLAN.—The term
24 ‘homeownership plan’ means a trust created or orga-
25 nized in the United States exclusively for the pur-

1 pose of paying qualified principal residence acquisi-
2 tion expenses of the account holder, but only if such
3 account holder meets the ownership limitations spec-
4 ified in paragraph (3) and only if the written gov-
5 erning instrument creating the trust meets the fol-
6 lowing requirements:

7 “(A) No contribution will be accepted un-
8 less it is in cash.

9 “(B) The trustee is a bank (as defined in
10 section 408(n)) or another person who dem-
11 onstrates to the satisfaction of the Secretary
12 that the manner in which the person will ad-
13 minister the trust will be consistent with the re-
14 quirements of this section.

15 “(C) No part of the trust assets will be in-
16 vested in life insurance contracts.

17 “(D) The assets of the trust shall be in-
18 vested in accordance with the direction of the
19 account holder.

20 “(E) The assets of the trust will not be
21 commingled with other property except in a
22 common trust fund or common investment
23 fund.

24 “(F) The interest of an individual in the
25 balance in his account is nonforfeitable.

1 “(G) The entire interest of an individual
2 for whose benefit the trust is maintained will be
3 distributed to such individual at the end of the
4 contribution period.

5 “(2) QUALIFIED PRINCIPAL RESIDENCE ACQUI-
6 SITION EXPENSES.—The term ‘qualified principal
7 residence acquisition expense’ means a qualified ac-
8 quisition cost (as defined in section 72(t)(8)(C)).

9 “(3) OWNERSHIP LIMITATIONS.—The account
10 holder shall be an individual who, after attaining the
11 age of 19 (or in the case of a student has not at-
12 tained the age of 24), has never had a present own-
13 ership interest in a principal residence.

14 “(4) PRINCIPAL RESIDENCE.—The term ‘prin-
15 cipal residence’ has the same meaning as when used
16 in section 121.

17 “(5) CONTRIBUTION PERIOD.—

18 “(A) IN GENERAL.—The term ‘contribu-
19 tion period’ means the 9-year period beginning
20 on the date on which the homeownership plan
21 is established.

22 “(B) AFTER DEATH OR DIVORCE.—In the
23 case of plan treated as a homeownership plan
24 under paragraph (4) or (5) of subsection (d),
25 the contribution period shall be the remaining

1 portion of the 9-year period described in sub-
2 paragraph (A), determined by taking into ac-
3 count only the employment and enrollment of
4 the account holder. In no event may the con-
5 tribution period exceed 14 years.

6 “(6) TIME WHEN CONTRIBUTIONS DEEMED
7 MADE.—A taxpayer shall be deemed to have made a
8 contribution to a homeownership plan on the last
9 day of the preceding taxable year if the contribution
10 is made on account of such taxable year and is made
11 not later than the time prescribed by law for filing
12 the return for such taxable year (not including ex-
13 tensions thereof).

14 “(d) TAX TREATMENT OF DISTRIBUTIONS.—

15 “(1) AMOUNTS USED FOR QUALIFIED PRIN-
16 CIPAL RESIDENCE ACQUISITION EXPENSES.—Any
17 amount paid or distributed out of a homeownership
18 plan which is used exclusively to pay qualified prin-
19 cipal residence acquisition expenses of the account
20 holder shall not be includible in gross income.

21 “(2) INCLUSION OF AMOUNTS NOT USED FOR
22 QUALIFIED PRINCIPAL RESIDENCE ACQUISITION EX-
23 PENSES.—Any amount paid or distributed out of a
24 homeownership plan which is not used exclusively to
25 pay the qualified principal residence acquisition ex-

1 penses of the account holder shall be included in the
2 gross income of such holder.

3 “(3) EXCESS CONTRIBUTIONS RETURNED BE-
4 FORE DUE DATE OF RETURN.—Paragraph (2) shall
5 not apply to the distribution of any contribution
6 made during a taxable year to a homeownership plan
7 to the extent that such contribution exceeds the
8 amount allowable as a deduction under subsection
9 (a) if—

10 “(A) such distribution is received on or be-
11 fore the day prescribed by law (including exten-
12 sions of time) for filing such individual’s return
13 for such taxable year,

14 “(B) such distribution is accompanied by
15 the amount of net income attributable to such
16 excess contribution.

17 Any net income described in subparagraph (B) shall
18 be included in the gross income of the individual for
19 the taxable year in which such excess contribution
20 was made.

21 “(4) TRANSFER OF PLAN INCIDENT TO DI-
22 VORCE.—The transfer to an individual’s spouse or
23 former spouse under a divorce or separation instru-
24 ment described in subparagraph (A) of section
25 71(b)(2) shall not be considered a taxable transfer

1 made by such individual notwithstanding any other
2 provision of this subtitle, and such interest at the
3 time of the transfer shall be treated as a home-
4 ownership plan of such spouse with respect to which
5 such spouse is the account holder. For purposes of
6 subsection (c)(1)(G), the spouse shall take into ac-
7 count the period such plan was held by the indi-
8 vidual transferring the interest.

9 “(5) TRANSFER OF PLAN INCIDENT TO
10 DEATH.—The transfer of a decedent’s interest in a
11 homeownership plan to such decedent’s spouse shall
12 not be considered a taxable transfer made by such
13 decedent notwithstanding any other provision of this
14 subtitle, and such interest at the time of the transfer
15 shall be treated as a homeownership plan of the sur-
16 viving spouse with respect to which such spouse is
17 the account holder. For purposes of subsection
18 (c)(1)(G), the surviving spouse shall take into ac-
19 count the period such plan was held by the decedent
20 transferring the interest.

21 “(e) TAX TREATMENT OF PLANS.—

22 “(1) EXEMPTION FROM TAX.—A homeowner-
23 ship plan shall be exempt from taxation under this
24 subtitle unless such plan has ceased to be a home-
25 ownership plan. Notwithstanding the preceding sen-

1 tence, any such plan shall be subject to the taxes im-
2 posed by section 511 (relating to imposition of tax
3 on unrelated business income of charitable, etc. or-
4 ganizations).

5 “(2) LOSS OF EXEMPTION OF PLAN WHERE IN-
6 DIVIDUAL ENGAGES IN PROHIBITED TRANS-
7 ACTIONS.—

8 “(A) IN GENERAL.—If, during any taxable
9 year of the individual for whose benefit the
10 homeownership plan is established, the indi-
11 vidual engages in any transaction prohibited by
12 section 4975 with respect to the plan, the plan
13 shall cease to be a homeownership plan as of
14 the first day of such taxable year. For purposes
15 of this subparagraph, the individual for whose
16 benefit any plan was established is treated as
17 the creator of the plan.

18 “(B) PLAN TREATED AS DISTRIBUTING
19 ALL ITS ASSETS.—In any case in which any
20 plan ceases to be a homeownership plan by rea-
21 son of subparagraph (A), on the first day of
22 any taxable year, subsection (d)(1) shall be ap-
23 plied as if there were a distribution on such
24 first day in an amount equal to the fair market

1 value (on such first day) of all assets in the
2 plan (on such first day).

3 “(3) EFFECT OF PLEDGING PLAN AS SECUR-
4 RITY.—If, during any taxable year, an individual for
5 whose benefit a homeownership plan is established
6 uses the plan or any portion thereof as security for
7 a loan, the portion so used shall be treated as dis-
8 tributed to such individual.

9 “(4) EFFECT OF ACQUISITION OF PRINCIPAL
10 RESIDENCE.—

11 “(A) IN GENERAL.—In the event that the
12 individual for whose benefit a homeownership
13 plan is established acquires a principal resi-
14 dence in any taxable year, such plan shall cease
15 to be a homeownership plan and all assets in
16 the plan shall be treated as distributed to such
17 individual on the first day of such taxable year.

18 “(B) SPECIAL RULES UPON MARRIAGE.—
19 For purposes of subparagraph (A), an indi-
20 vidual for whose benefit a homeownership plan
21 is established shall not be treated as having ac-
22 quired a principal residence if, after the estab-
23 lishment of such plan, such individual—

24 “(i) marries an individual who owns a
25 principal residence, but

1 “(ii) does not obtain an ownership in-
2 terest in such residence.

3 “(f) ADDITIONAL TAX ON CERTAIN AMOUNTS IN-
4 CLUDED IN GROSS INCOME.—

5 “(1) DISTRIBUTION NOT USED FOR PURCHASE
6 OF PRINCIPAL RESIDENCE.—The tax imposed by
7 this chapter on the account holder for any taxable
8 year in which there is a payment or distribution
9 from a homeownership plan of such holder which is
10 includible in gross income under subsection (d)(2)
11 shall be increased by 10 percent of the amount
12 which is so includible.

13 “(2) DISABILITY OR DEATH CASES.—Paragraph
14 (1) shall not apply if the distribution is made after
15 the individual for whose benefit the homeownership
16 plan is established becomes disabled within the
17 meaning of section 72(m)(7) or dies.

18 “(g) CUSTODIAL ACCOUNTS.—For purposes of this
19 section, a custodial account shall be treated as a trust if
20 the assets of such account are held by a bank (as defined
21 in section 408(n)) or another person who demonstrates,
22 to the satisfaction of the Secretary, that the manner in
23 which he will administer the account will be consistent
24 with the requirements of this section, and if the custodial
25 account would, except for the fact that it is not a trust,

1 constitute a homeownership plan described in subsection
2 (c). For purposes of this title, in the case of a custodial
3 account treated as a trust by reason of the preceding sen-
4 tence, the custodian of such account shall be treated as
5 the trustee thereof.

6 “(h) REPORTS.—The trustee of a homeownership
7 plan shall make such reports regarding such plan to the
8 Secretary and to the individual for whose benefit the plan
9 is maintained with respect to contributions, distributions,
10 and such other matters as the Secretary may require
11 under regulations. The reports required by this subsection
12 shall be filed at such time and in such manner and fur-
13 nished to such individuals at such time and in such man-
14 ner as may be required by those regulations.

15 “(i) PLANS ESTABLISHED BY EMPLOYERS.—A trust
16 created or organized in the United States by an employer
17 for the exclusive benefit of the employees of the employer
18 shall be treated as a homeownership plan, but only if the
19 written governing instrument creating the plan meets the
20 following requirements:

21 “(1) GENERAL REQUIREMENTS FOR HOME-
22 OWNERSHIP PLANS.—The plan satisfies the require-
23 ments of subparagraphs (A) through (G) of sub-
24 section (c)(1).

1 “(2) SEPARATE ACCOUNTING.—There is a sepa-
 2 rate accounting for the interest of each employee.
 3 The assets of the trust may be held in a common
 4 fund for the account of all employees who have an
 5 interest in the trust.

6 “(3) ADDITIONAL REQUIREMENTS.—The plan
 7 satisfies requirements, established in regulations
 8 issued by the Secretary, similar to the requirements
 9 set forth in paragraphs (2) through (8) of section
 10 408(k) (other than paragraph (2)(B)).”

11 (b) ALLOWANCE OF DEDUCTION IN ARRIVING AT AD-
 12 JUSTED GROSS INCOME.—Section 62(a) of such Code (re-
 13 lating to retirement savings) is amended by adding at the
 14 end the following new paragraph:

15 “(18) HOMEOWNERSHIP SAVINGS.—The deduc-
 16 tion allowed by section 222 (relating to deduction of
 17 certain payments to homeownership plans).”.

18 (c) TAX ON EXCESS CONTRIBUTIONS.—Section 4973
 19 of such Code (relating to tax on excess contributions to
 20 individual retirement accounts, medical savings accounts,
 21 certain section 403(b) contracts, and certain individual re-
 22 tirement annuities) is amended—

23 (1) by inserting “**HOMEOWNERSHIP PLANS,**”
 24 after “**ACCOUNTS**”, the second place it appears in
 25 the heading of such section;

1 (2) by striking “or” at the end of subsection
2 (a)(3), by inserting “or” at the end of subsection
3 (a)(4), and by inserting after paragraph (4) the fol-
4 lowing new paragraph:

5 “(5) a homeownership plan (within the meaning
6 of section 222(c)),”; and

7 (3) by adding at the end the following new sub-
8 section:

9 “(g) EXCESS CONTRIBUTIONS TO HOMEOWNERSHIP
10 PLANS.—For purposes of this section, in the case of a
11 homeownership plan (within the meaning of section
12 222((c)(1))), the term ‘excess contributions’ means the
13 sum of—

14 “(1) the excess (if any) of—

15 “(A) the amount contributed for the tax-
16 able year to the homeownership plan, over

17 “(B) the amount allowable as a deduction
18 under section 222 for such taxable year, and

19 “(2) the amount determined under this sub-
20 section for the preceding taxable year, reduced by
21 the sum of—

22 “(A) the distributions out of the accounts
23 for the taxable year, and

24 “(B) the excess (if any) of—

1 “(i) the maximum amount allowable
2 as a deduction under section 222(b)(1) for
3 the taxable year, over

4 “(ii) the amount contributed to the
5 plan for the taxable year.

6 For purposes of this subsection, any contribution
7 which is distributed from a homeownership plan in
8 a distribution described in section 222(d)(3) shall be
9 treated as an amount not contributed.”

10 (d) TAX ON PROHIBITED TRANSACTIONS.—Section
11 4975 of such Code (relating to tax on prohibited trans-
12 actions) is amended—

13 (1) by adding at the end of subsection (c) the
14 following new paragraph:

15 “(6) SPECIAL RULE FOR HOMEOWNERSHIP
16 PLANS.—An individual for whose benefit a home-
17 ownership plan is established shall be exempt from
18 the tax imposed by this section with respect to any
19 transaction concerning such plan (which would oth-
20 erwise be taxable under this section) if, with respect
21 to such transaction, the plan ceases to be a home-
22 ownership plan by reason of the application of sec-
23 tion 222(e)(2)(A) or if section 222(e)(3) applies to
24 such plan.”; and

1 (2) in subsection (e)(1) by striking “or” at the
 2 end of subparagraph (E), by redesignating subpara-
 3 graph (F) as subparagraph (G) and inserting after
 4 subparagraph (E) the following new subparagraph:

5 “(F) a homeownership plan described in
 6 section 222(c), or”.

7 (e) FAILURE TO PROVIDE REPORTS ON HOME-
 8 OWNERSHIP PLANS.—Paragraph (2) of section 6693(a) of
 9 such Code (relating to failure to provide reports on certain
 10 tax-favored accounts or annuities; penalties relating to
 11 designated nondeductible contributions) is amended by
 12 striking “and” at the end of subparagraph (C), by striking
 13 the period at the end of subparagraph (D) and inserting
 14 “, and”, and by inserting after subparagraph (D) the fol-
 15 lowing new subparagraph:

16 “(E) section 222(i) (relating to home-
 17 ownership plans).”

18 (f) CLERICAL AMENDMENTS.—

19 (1) The table of sections for part VII of sub-
 20 chapter B of chapter 1 of such Code is amended by
 21 striking the last item and inserting the following:

 “Sec. 222. Homeownership plans.
 “Sec. 223. Cross Reference.”

22 (2) The table of sections for chapter 43 of such
 23 Code is amended by striking the item relating to sec-
 24 tion 4973 and inserting the following:

“Sec. 4973. Tax on excess contributions to individual retirement accounts, homeownership plans, certain 403(b) contracts, and certain individual retirement annuities.”

1 (g) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years beginning after
3 December 31, 2000.

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